



Chenango Valley Central School District Capital Project Management

Report of Examination

Period Covered:

July 1, 2014 – December 17, 2015

2016M-58



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

June 2016

Dear School District Officials:

A top priority of the Office of the State Comptroller is to help school district officials manage their districts efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support district operations. The Comptroller oversees the fiscal affairs of districts statewide, as well as districts' compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving district operations and Board of Education governance. Audits also can identify strategies to reduce district costs and to strengthen controls intended to safeguard district assets.

Following is a report of our audit of the Chenango Valley School District, entitled Capital Project Management. This audit was conducted pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the New York State General Municipal Law.

This audit's results are a resource for district officials to use in effectively managing operations and in meeting the expectations of their constituents. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

*Office of the State Comptroller
Division of Local Government
and School Accountability*

Introduction

Background

The Chenango Valley Central School District (District) is located in the Towns of Chenango, Colesville, Dickinson, Fenton and Kirkwood in Broome County. The District is governed by the Board of Education (Board), which is composed of nine elected members. The Board is responsible for the general management and control of the District's financial and educational affairs. The Superintendent of Schools (Superintendent) is the District's chief executive officer and is responsible, along with other administrative staff, for the District's day-to-day management under the Board's direction. The School Business Executive is the District's liaison with the Central Business Office at the Broome-Tioga Board of Cooperative Educational Services (BOCES). The Director of Facilities is responsible for upkeep of all District buildings and grounds. The Superintendent, School Business Executive and Director of Facilities (District officials) also manage the District's capital projects.

The District operates two elementary schools, a middle/high school and a bus garage. The District has approximately 1,600 students and 360 employees. The District's general fund budgeted appropriations for the 2015-16 fiscal year are \$34.7 million, which are funded primarily with real property taxes and State aid.

Objective

The objective of our audit was to examine District officials' management of the ongoing Capital Project (Project). Our audit addressed the following related question:

- Did District officials properly manage the Project?

Scope and Methodology

We examined District officials' management of Phase I of the Project for the period July 1, 2014 through December 17, 2015. We extended our scope forward to January 21, 2016 to review Project-related expenditures, change orders and the Architect's potential cost estimates.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit are included in Appendix B of this report. Unless otherwise indicated in this report, samples for testing were selected based on professional judgment, as it was not the intent to project the results onto the entire population. Where applicable, information is presented concerning the value and/or size of the relevant population and the sample selected for examination.

**Comments of
District Officials**

The results of our audit have been discussed with District officials, and their comments, which appear in Appendix A, have been considered in preparing this report. District officials agreed with our report.

Capital Project Management

Capital projects are generally long-term and require large sums of money to acquire, develop, improve or maintain various facilities. The Board is responsible for the oversight and management of the District's capital projects, including ensuring that projects are properly planned and managed, funding is authorized and costs are kept within the approved budget. The Board and District officials should propose capital projects in a transparent manner for District resident approval, and the scope of the work must be approved by the New York State Education Department (NYSED). District officials are required to ensure that all approved capital project work has been completed and no work outside the scope has been completed as part of the project. District officials should ensure change orders are within the approved scope of work and are submitted to NYSED for the Commissioner's approval. General Municipal Law (GML) requires District officials to competitively bid purchase contracts exceeding certain thresholds¹ and to develop a procurement policy for purchases under these thresholds.²

At the time of our audit, the District had an ongoing Project which involved constructing, renovating and improving all three school buildings and the bus garage. The Project was approved by District residents in December 2014 with a total budget of \$12.4 million. The District engaged various consultants to facilitate the Project, including an architectural and engineering firm (Architect) for building design and development and assisting in the purchasing process, a Clerk of the Works to manage construction and a municipal advisory firm (Advisor) for bonding and cash flow planning.

The Project was designed to be completed in two phases.³ As of December 2015, the majority of Phase I work was completed. Phase I work included, among other things, new intruder locksets for all school buildings, new roofs at the Port Dickinson Elementary School and the bus garage, playground equipment, new athletic fields, a new scoreboard and bleachers, drainage work at a baseball field and

¹ With certain exceptions, competitive bidding is required for purchase contracts exceeding \$20,000 and public works contracts exceeding \$35,000.

² For example, the District's procurement policy requires that the purchasing agent obtain three formal, written quotes for purchase contracts and public works contracts in excess of \$10,000 but less than the respective \$20,000 and \$35,000 competitive bidding thresholds.

³ Our audit focused on Phase I of the Project, as Phase II work (which has been divided into Phase II-A and Phase II-B) had not yet begun during our scope period.

installation of lockers at the middle/high school. However, the roof replacement at the Port Dickinson Elementary School and playground equipment replacement were not completed as of December 2015 because District officials and the Architect were still in the process of obtaining goods and services to complete this Phase within the Project's budget.

Overall, District officials properly managed Phase I of the Project. The Board presented the Project to District residents in a transparent manner. In addition, all work performed was consistent with the NYSED-approved scope and with properly approved change orders. District purchasing practices for the Project conformed to GML and to the Project's budget.

Transparency

The Board and District officials should propose capital projects, subject to approval by District residents, in a transparent manner. In order to make an informed decision on a project, residents should be provided with details on the project's scope, including the type and location of work contemplated, the furnishings and equipment to be purchased and an estimate of the costs and financing.

The Board and District officials proposed the Project in a transparent manner, and District residents had sufficient information to make an informed decision on the Project, including the type and location of work contemplated, the furnishings and equipment to be purchased and an estimate of the costs and financing. Prior to the residents' vote, the Board held a public meeting on October 7, 2014, at which the Architect and the Advisor presented the Project's planned scope and financing.

Although parts of Phase I work were not completed as of December 2015, District officials were aware of this and communicated this fact to taxpayers in the District's December 2015 newsletter.

Work Conformity With Scope

District officials are required to propose all phases of a capital project, including details of the scope of the work, to NYSED for approval. Additionally, District officials are required to ensure that all work, as approved by residents and NYSED, has been completed and no work outside the scope has been completed.

The Superintendent and School Business Executive obtained proper approval from NYSED before Phase I work was performed. District officials ensured that Phase I was completed by viewing work in progress and inspecting completed work. In addition, the Director of Facilities received daily reports from the Clerk of the Works describing the work performed. All Phase I work completed as of December 17, 2015 was in conformity with the approved scope.

Change Orders

NYSED guidelines state that a change order is used to make official changes to a signed contract for capital construction. A change order may be needed to accommodate a discovered job condition, to add or delete portions of work or to otherwise change a condition or the amount of a contract. With any construction undertaking, a certain number of change orders are expected because a number of variables are not known at the start of a project. However, under normal circumstances, a change order may not expand the scope of the work or represent a basic departure from work already included in the contract. If the cost of a project is less than anticipated, school district officials cannot authorize additional work to be completed that was not intended in the original approved plans. Additionally, all change orders must be submitted to NYSED for the Commissioner's approval.

During our scope period, the Project had eight⁴ NYSED-approved change orders totaling over \$115,000 (see Figure 1), or less than 1 percent of the Project's total budget.

Figure 1: Summary of Change Orders

	Site Work	General Construction	Electrical
Original Estimated Cost	\$2,017,911	\$251,900	\$27,700
Change Order Amount ^a	\$74,757	\$33,848	\$6,846
Amended Estimated Cost	\$2,092,668	\$285,748	\$34,546
Percentage Increase	3.7%	13.4%	24.7%

^a Five change orders were related to the athletic fields: four for site work and one for electrical work. Three change orders were related to general construction.

The Superintendent and School Business Executive submitted all eight change orders created during our scope period to NYSED for approval. All approved change orders had required signatures from the Board President or other District representative, the Architect and the contractor. None of the change orders constituted an expansion of the scope of the work or a departure from work already included in the contract.

Project Purchases

School districts can use capital project funds to purchase equipment, hardware, fixtures and technical systems related to a capital project. These items must be part of the scope of a capital project and should be included in the capital project's proposition. These purchases may include items such as door hardware, fire alarms, public address systems and other equipment as detailed in the approved project scope.

⁴ There were two open change orders that had not been approved by either the Board President or NYSED as of January 21, 2016. Therefore, we did not include these two open change orders in our calculations. These change orders totaled \$2,123 for locksets and \$21,693 for bleachers.

In addition, capital project purchases are subject to the same laws and regulations as any other purchases. Therefore, unless an exception applies, GML requires District officials to competitively bid purchase contracts exceeding certain thresholds and to develop a procurement policy for purchases under these thresholds. The appropriate use of competition provides assurance that District officials are procuring goods and services in the most prudent and economical manner.

As of January 21, 2016, Project-related expenditures totaled approximately \$3.3 million. We did not identify any purchases made outside the Project's scope. Moreover, we found that the Architect obtained bids and quotes in conformity with GML and the District's procurement policy and recommended the Board select the vendors with the lowest bid.

For example, roof replacement services for two roofs were initially priced at a total of \$975,446 through cooperative purchasing. District officials and the Architect considered this price to be too high. Therefore, they competitively bid the roof replacement at a later time and obtained a price of \$515,000 for both roofs to be replaced. The Board, District officials and the Architect elected to use this price, thus saving \$460,446 as compared to the cooperative purchasing price.

As a result of District officials' adequate Project management practices, Phase I work completed thus far was in accordance with the Project's scope and completed in an economically prudent manner. Phase II-A and Phase II-B of the Project are expected to be completed by the end of the summer of 2017.

On January 18, 2016, the Architect projected that the District could potentially overspend the total Project budget by \$38,564,⁵ which is approximately 0.3 percent of the approved Project cost. District officials stated that if this potential cost overrun becomes imminent, they will remove or modify the planned work to avoid spending more than the original \$12.4 million budget. District officials do not anticipate a cost overrun at this time, and the Architect's estimate represents its highest potential cost expected. Therefore, it is imperative that District officials continue to monitor the Project's proposed spending to actual performance and ensure the Project does not exceed the approved amount and that revenue sources are sufficient to cover final Project costs.

⁵ This potential overspending of the budget assumes the highest potential price for playground equipment (which is still pending in Phase I of the Project) and the highest potential price for all of Phase II (which has not begun as of the date of the Architect's estimate, January 18, 2016).

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

The District officials' response to this audit can be found on the following page.

Chenango Valley Central School District

Mr. David P. Gill
Superintendent of Schools



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May 18, 2016

H. Todd Eames, Chief Examiner
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State Office Building, Room 1702
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Unit Name: Chenango Valley Central School District

Audit Report Number: 2016M-58

Dear Mr. Eames,

This correspondence is being submitted in response to the preliminary draft findings of the recently completed examination of the Chenango Valley Central School District's (the District) capital project management for the period July 1, 2014 – December 17, 2015.

We are pleased with the results of the examination and have taken every measure to ensure that we are adhering to our responsibilities to both the District and community in each step of the project.

We will continue to exercise due diligence in all aspects of the project going forward including, but not limited to, the following areas:

- Keeping our community informed about progress in all phases of the current project,
- Ensuring that the work is completed in conformity with the voter approved scope of work, including any change orders,
- Managing the project in an economically prudent manner, and
- Monitoring spending to verify that the project will not be overspent.

We appreciate the comprehensive approach taken by the auditor in relation to the project and the subsequent observations and comments included in the report as well.

Sincerely,

David P. Gill
Superintendent of Schools

cc: Stuart Elliott, Chenango Valley CSD Board of Education President
Susan M. Cirba, Chenango Valley CSD District Clerk
Elizabeth Donahue, Chenango Valley CSD School Business Executive
Kathryn Blackman, B-T BOCES Central Business Office Controller

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

To achieve our audit objective and obtain valid evidence, we performed the following procedures:

- We interviewed District officials, representatives of the Architect, the Clerk of the Works and an accountant from the Broome-Tioga BOCES Central Business Office to gain an understanding of District officials' Project management procedures and purchasing practices.
- We reviewed the District's policies to evaluate their impact on the Project. We also reviewed the District's procurement policy for conformity with GML.
- We compared the Project's documentation presented to taxpayers with the NYSED-approved Project documentation, considering the type and location of work to be performed, the furnishings and equipment to be purchased and estimates of the Project's costs and financing.
- We evaluated NYSED-approved documentation to determine the Project's scope and if the Project was properly approved.
- We observed work performed at all school buildings and on District grounds to determine if, as of December 17, 2015, work was completed as planned in the specified and approved manner and quality, and to determine if any additional work was performed outside of the approved scope.
- We reviewed all eight change orders created as of January 21, 2016 to determine if the change orders were within the NYSED-approved scope of the Project and properly approved by NYSED and the Board President, and we calculated the percentage increase of the change orders from the original cost of that part of the Project.
- We reviewed four judgmentally selected purchases out of seven contracts within Phase I of the Project to determine if they were made in conformity with GML and the District's procurement policy.
- We calculated the Architect's projected potential cost overrun as a percentage of the total Project budget.

We conducted this performance audit in accordance with GAGAS. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

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